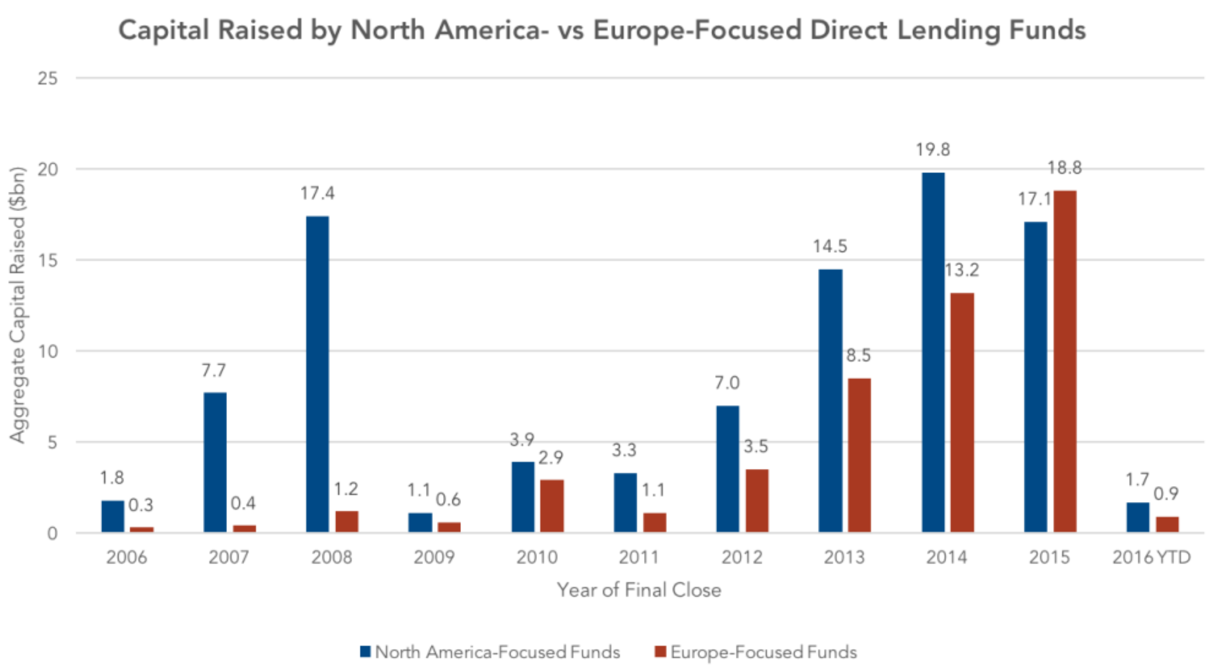
Preqin Private Debt Intelligence – 4/25/2016

THE LEAD | April 26, 2016

European Direct Lending Surpasses North America

Direct lending has become a staple element of the private debt market in both North America and Europe in recent years, providing investors with an alternative risk/return profile compared to more traditional mezzanine or distressed debt opportunities. However, differing regulatory environments between the two regions have proved a boon to Europe-focused direct lending vehicles, and the increase in the market here has been far more rapid than in North America over the past few years. Basel I and II have made many traditional lenders more cautious, and this trend looks set to increase further due to the incoming capital adequacy ratios required by Basel III. As such, alternative lenders in Europe have been looking to fill the gap in the credit markets, and the annual level of capital raised for the region has grown by 437% from 2012 to 2015, outstripping the 144% growth of the industry in the more mature credit markets of North America. As a result, 2015 marked the first year in which Europe-focused direct lending funds secured more in investor commitments ($19bn) than North America-focused funds ($17bn).



Despite recent record fundraising and buoyant investor sentiment, the private debt industry in 2016 has gotten off to a slow start. Just 13 funds closed globally in the first quarter, raising a combined $7.5bn between them, compared to 30 funds which raised $27bn in Q1 2015. As of April, three Europe-focused direct lending funds have closed, each targeting less than a billion dollars, while four North America-focused funds have raised $1.7bn. With the limited level of fundraising activity in the asset class as a whole, the relative significance of direct lending funds in both regions is highlighted, with the strategy being used by half of the funds closed in the year so far. Given the large proportion of funds currently in market that pursue a direct lending strategy, it remains to be seen if they will continue to dominate the fundraising market as the year continues.

Contact: William Clarke
william.clarke@preqin.com